



**PRESIDENT'S COUNCIL on INTEGRITY & EFFICIENCY  
AUDIT COMMITTEE**

March 15, 1995

**MEMORANDUM FOR MEMBERS OF THE PRESIDENT'S COUNCIL ON  
INTEGRITY AND EFFICIENCY**

*Gretchen C. Schwarz*  
**FROM : Gretchen C. Schwarz**  
**Acting Inspector General**

**SUBJECT : Quality of Non-Federal Audits for the Six-Month**  
**Period Ended September 30, 1994**

This is the PCIE's semiannual non-Federal audit quality report for the period ended September 30, 1994. This report provides the results of Inspectors General's (IG) desk reviews (DRs) and quality control reviews (QCRs) of audits of Federal activities performed by independent public accountants (IPAs) and State/Local auditors. The report contains information and data on audit quality, monetary findings, and sanctions taken against auditors who performed deficient work. Fourteen IGs reported non-Federal audit activities during this reporting period.

**RESULTS OF DESK AND QUALITY CONTROL REVIEWS**

The table below shows the results of the DRs and QCRs performed by fourteen IG offices during this period (See attachments 1 through 4 for details).

	DR		QCRs		Total	
Reports issued without changes or with minor changes. <sup>1</sup>	3,710	85.2%	123	71.1%	3,833	84.7%
Reports issued with major changes. <sup>2</sup>	59	1.4%	12	6.9%	71	1.5%
Reports with significant inadequacies. <sup>3</sup>	<u>586</u>	<u>13.4%</u>	<u>38</u>	<u>22.0%</u>	<u>624</u>	<u>13.8%</u>
Total	<u>4,355</u>	<u>100.0%</u>	<u>173</u>	<u>100.0%</u>	<u>4,532</u>	<u>100.0%</u>

### **AUDIT QUALITY**

Illustrated in Attachment 2 are the results of the reviews of A-128 audits. In general, the number of problem reports found in desk reviews remain relatively low and generate little concern. However, the results of QCRs<sup>4</sup> on IPA audit reports are of concern. During this period 37.0% (80.5% in the previous period or 46.3% if HUD<sup>5</sup> statistics were excluded) of these audit reports were found to require major changes or were significantly inadequate. There were no major or significant problems noted in this period or the previous period for A-128 audit reports prepared by State or local auditors that were subjected to QCR.

The quality of A-133 audit reports has improved but remains a concern. As illustrated in Attachment 3, 25.2% of the A-133 audit reports prepared by IPAs that were desk reviewed this period were found to require major changes or were significantly inadequate. This is an improvement from the 26.4% reported in the previous report. Of the 53 QCRs performed on A-133 audit reports prepared by IPAs 24.5% were found to require major changes or were significantly inadequate. This represents an improvement from 44.0% reported in the prior report. Also, during this period, the IGs desk reviewed only 16 A-133 audit reports prepared by State or local auditors. One of the reports was found to be significantly inadequate. There was one QCR performed on A-133 audits prepared by State or local auditors and no major problems were noted.

The problems with A-128 and A-133 audits continued to be primarily due to the following:

- a) Inadequate internal control report or lack of support for the report;
- b) Inadequate report on compliance or lack of support for the report;
- c) Inadequate compliance testing;
- d) Inadequate or missing findings;
- e) Improper or missing opinions;
- f) The workpapers did not contain adequate documentation to support the audit;
- g) Lack of or incomplete financial statements; or
- h) A general failure to follow the proper auditing standards.

We are still concerned about the quality of "other" audits. As illustrated in Attachment 4, 10.6% of the "other" audit reports prepared by IPAs that were desk reviewed this period were found to require major changes or were significantly inadequate. This represents a minor decline in quality from 9.7% reported in the prior report. During this period, 30.3% of the QCRs performed on "other" audit reports prepared by IPAs were found to require major changes or were significantly inadequate. This is an improvement from the 48.6% reported in the previous report. Also, during this period, the IGs desk reviews noted no problems with "other" audit reports prepared by State or local auditors. There were no QCRs of "other" audit reports prepared by State or local auditors.

The primary problems with "other" audits are similar to the ones experienced with A-128 and A-133 audits.

### **MONETARY FINDINGS IN NON-FEDERAL AUDITS**

Below are statistics covering unsupported costs and other costs questioned in non-Federal audits (See Attachment 5 for details). Amounts sustained by program officials this period are also presented as disallowed costs. These are costs for which management made decisions this period. Most of the costs would have been originally questioned in prior periods.

*(Dollars in Millions)*

<i>Unsupported costs<sup>7</sup></i>	<i>\$ 34.0</i>
<i>Other questioned costs<sup>8</sup></i>	<i><u>131.6</u></i>
<i>Total questioned costs</i>	<i><u>\$165.6</u></i>
<i>Total disallowed costs</i>	<i><u>\$ 46.3</u></i>

### **SANCTIONS**

One of the fourteen IGs reported that they referred a total of 12 public accountants to the appropriate state regulatory board or AICPA for violations of generally accepted government auditing standards.

State Boards or the AICPA took disciplinary action on 8 CPAs that were referred in previous periods. Penalties assessed included monetary fines, work product reviews, and additional hours of continuing professional education (CPE).

If you have any questions or comments concerning the information presented in this report, please contact me or Russell Young of my staff. We can be reached on (202) 205-5439 and (202) 205-9970, respectively.

Attachments

## Endnotes

1. These reports required no changes or minor correction in order to be acceptable.
2. These reports required major changes to the audit report and/or correction of deficient substandard audit work. These errors do not render the audit report unusable.
3. These audit reports are received with deficiencies so great that users cannot rely on them. The reports are acceptable only after substantial revisions.
4. A portion of the QCRs are selected based on judgmental factors such as funding level of the auditee, risk analysis, or perceived problems by the desk reviewer. Therefore, a straight projection to the full audit universe should not be made.
5. HUD is no longer reporting non-Federal audit statistics.
6. Five of the fourteen IGs reporting this period included other non-Federal audit activity. Of these, two had significant activity (HHS and ED). The types of programs audited included the following:
  - HHS - Grants for the Head Start program, Runaway Youth, Office of Community Services, Community Health Centers, and various Public Health Service Funds.
  - ED - Student Financial Assistance Programs.
7. In general, this amount represents expenditures or uses of funds for which the auditor was unable to determine conformance with applicable requirements due to the auditee's failure to maintain adequate documentation.
8. Generally, other questioned costs are expenditures or uses of funds which the auditor, after reviewing available documents, concludes were not made in accordance with applicable legal requirements.

**RESULTS OF REVIEWS OF ALL NON-FEDERAL AUDITS  
FOR THE SIX MONTHS ENDED  
September 30, 1994**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
<b>Analysis of All QCRs:</b>				
<b>Results of QCRs on All Audits</b>	<b>123</b>	<b>12</b>	<b>38</b>	<b>173</b>
<b>% to total</b>	<b>71.1%</b>	<b>6.9%</b>	<b>22.0%</b>	<b>100.0%</b>
<b>Results of QCRs on Audits Done By IPAs</b>	<b>115</b>	<b>12</b>	<b>38</b>	<b>165</b>
<b>% to total</b>	<b>69.7%</b>	<b>7.3%</b>	<b>23.0%</b>	<b>100.0%</b>
<b>Results of QCRs on Audits Conducted By State/Local Auditors</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>8</b>
<b>% to total</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>100.0%</b>
<b>Analysis of All Desk Reviews:</b>				
<b>Results of Desk Reviews on All Audits</b>	<b>3,721</b>	<b>59</b>	<b>586</b>	<b>4,366</b>
<b>% to total</b>	<b>85.2%</b>	<b>1.4%</b>	<b>13.4%</b>	<b>100.0%</b>
<b>Results of Desk Reviews on Audits Done By IPAs</b>	<b>3,466</b>	<b>58</b>	<b>585</b>	<b>4,109</b>
<b>% to total</b>	<b>84.4%</b>	<b>1.4%</b>	<b>14.2%</b>	<b>100.0%</b>
<b>Results of Desk Reviews on Audits Conducted By State/Local Auditors</b>	<b>255</b>	<b>1</b>	<b>1</b>	<b>257</b>
<b>% to total</b>	<b>99.2%</b>	<b>0.4%</b>	<b>0.4%</b>	<b>100.0%</b>

**RESULTS OF REVIEWS OF A-128 AUDITS  
FOR THE SIX MONTHS ENDED  
September 30, 1994**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
<b>Analysis of Single Audit QCRs:</b>				
<b>Results of QCRs on All Single Audits</b>	<b>36</b>	<b>3</b>	<b>14</b>	<b>53</b>
<b>% to total</b>	<b>67.9%</b>	<b>5.7%</b>	<b>26.4%</b>	<b>100.0%</b>
<b>Results of QCRs on Single Audits Done By IPAs</b>	<b>29</b>	<b>3</b>	<b>14</b>	<b>46</b>
<b>% to total</b>	<b>63.0%</b>	<b>6.5%</b>	<b>30.5%</b>	<b>100.0%</b>
<b>Results of QCRs on Single Audits Conducted By State/Local Auditors</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>7</b>
<b>% to total</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>100.0%</b>
<b>Analysis of Single Audit Desk Reviews:</b>				
<b>Results of Desk Reviews on All Single Audits</b>	<b>1,318</b>	<b>5</b>	<b>12</b>	<b>1,335</b>
<b>% to total</b>	<b>98.7%</b>	<b>0.4%</b>	<b>0.9%</b>	<b>100.0%</b>
<b>Results of Desk Reviews on Single Audits Done By IPAs</b>	<b>1,139</b>	<b>4</b>	<b>12</b>	<b>1,155</b>
<b>% to total</b>	<b>98.6%</b>	<b>0.3%</b>	<b>1.1%</b>	<b>100.0%</b>
<b>Results of Desk Reviews on Single Audits Conducted By State/Local Auditors</b>	<b>179</b>	<b>1</b>	<b>0</b>	<b>180</b>
<b>% to total</b>	<b>99.4%</b>	<b>0.6%</b>	<b>0.0%</b>	<b>100.0%</b>

**RESULTS OF REVIEWS OF A-133 AUDITS  
FOR THE SIX MONTHS ENDED  
September 30, 1994**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
<b>Analysis of A-133 QCRs:</b>				
<b>Results of QCRs on All A-133 Audits</b>	<b>41</b>	<b>5</b>	<b>8</b>	<b>54</b>
<b>% to total</b>	<b>75.9%</b>	<b>9.3%</b>	<b>14.8%</b>	<b>100.0%</b>
<b>Results of QCRs on A-133 Audits Done By IPAs</b>	<b>40</b>	<b>5</b>	<b>8</b>	<b>53</b>
<b>% to total</b>	<b>75.5%</b>	<b>9.4%</b>	<b>15.1%</b>	<b>100.0%</b>
<b>Results of QCRs on A-133 Audits Conducted By State/Local Auditors</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>% to total</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Analysis of A-133 Desk Reviews:</b>				
<b>Results of Desk Reviews on All A-133 Audits</b>	<b>1,622</b>	<b>29</b>	<b>514</b>	<b>2,165</b>
<b>% to total</b>	<b>74.9%</b>	<b>1.3%</b>	<b>23.8%</b>	<b>100.0%</b>
<b>Results of Desk Reviews on A-133 Audits Done By IPAs</b>	<b>1,607</b>	<b>29</b>	<b>513</b>	<b>2,149</b>
<b>% to total</b>	<b>74.8%</b>	<b>1.3%</b>	<b>23.9%</b>	<b>100.0%</b>
<b>Results of Desk Reviews on A-133 Audits Conducted By State/Local Auditors</b>	<b>15</b>	<b>0</b>	<b>1</b>	<b>16</b>
<b>% to total</b>	<b>93.8%</b>	<b>0.0%</b>	<b>6.2%</b>	<b>100.0%</b>

**RESULTS OF REVIEWS OF OTHER AUDITS  
FOR THE SIX MONTHS ENDED  
September 30, 1994**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
<b>Analysis of Other QCRs:</b>				
<b>Results of QCRs on All Other Audits</b>	<b>46</b>	<b>4</b>	<b>16</b>	<b>66</b>
<b>% to total</b>	<b>69.7%</b>	<b>6.1%</b>	<b>24.2%</b>	<b>100.0%</b>
<b>Results of QCRs on Other Audits Done By IPAs</b>	<b>46</b>	<b>4</b>	<b>16</b>	<b>66</b>
<b>% to total</b>	<b>69.7%</b>	<b>6.1%</b>	<b>24.2%</b>	<b>100.0%</b>
<b>Results of QCRs on Other Audits Conducted By State/Local Auditors</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>% to total</b>				
<b>Analysis of Other Desk Reviews:</b>				
<b>Results of Desk Reviews on All Other Audits</b>	<b>781</b>	<b>25</b>	<b>60</b>	<b>866</b>
<b>% to total</b>	<b>90.2%</b>	<b>2.9%</b>	<b>6.9%</b>	<b>100.0%</b>
<b>Results of Desk Reviews on Other Audits Done By IPAs</b>	<b>720</b>	<b>25</b>	<b>60</b>	<b>805</b>
<b>% to total</b>	<b>89.4%</b>	<b>3.1%</b>	<b>7.5%</b>	<b>100.0%</b>
<b>Results of Desk Reviews on Other Audits Conducted By State/Local Auditors</b>	<b>61</b>	<b>0</b>	<b>0</b>	<b>61</b>
<b>% to total</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>100.0%</b>



**MONETARY FINDINGS  
FOR THE SIX MONTHS ENDED  
September 30, 1994  
(In Millions of Dollars)**

	A-128			A-133			Other		
	IPA	State & Local	Total	IPA	State & Local	Total	IPA	State & Local	Total
Unsupported costs	\$ 1.1	\$23.3	\$24.4	\$ 6.8	\$ 0.0	\$ 6.8	\$ 2.8	\$ 0.0	\$ 2.8
Other questioned costs	12.7	102.0	114.7	11.3	0.1	11.4	4.3	1.2	5.5
<b>Total questioned costs</b>	<b><u>\$13.8</u></b>	<b><u>\$125.3</u></b>	<b><u>\$139.1</u></b>	<b><u>\$18.1</u></b>	<b><u>\$ 0.1</u></b>	<b><u>\$18.2</u></b>	<b><u>\$ 7.1</u></b>	<b><u>\$ 1.2</u></b>	<b><u>\$ 8.3</u></b>
Sustained unsupported	\$ 1.2	\$ 2.5	\$ 3.7	\$ 1.0	\$ 0.0	\$ 1.0	\$ 4.0	\$ 8.8	\$12.8
Sustained other questioned costs	3.9	18.9	22.8	3.8	0.0	3.8	2.8	0.4	3.2
<b>Total disallowed costs</b>	<b><u>\$ 5.1</u></b>	<b><u>\$21.4</u></b>	<b><u>\$26.5</u></b>	<b><u>\$ 4.8</u></b>	<b><u>\$ 0.0</u></b>	<b><u>\$ 4.8</u></b>	<b><u>\$ 6.8</u></b>	<b><u>\$ 9.2</u></b>	<b><u>\$15.0</u></b>

**Note:** The unsupported and other questioned costs are from reports processed and issued this semiannual period. The sustained amounts are from reports that management took resolution action on this period. Further, one agency which reported non-Federal statistics no longer has ability to determine the monetary results of the audits.